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May 6, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Suite 222
Washington, D.C. 20554

Re: Ex Parte Communication Concerning GN Docket No. 93-252, Regulatory Treatment of Mobile Services

Dear Mr. Caton

On Friday, May 6, 1994, the attached letter from David Gusky, Executive Director of the National Cellular Resellers Association, and the attached Wall Street Journal Article entitled "Cellular-Phone Rates Spark Static From Users," were delivered to Chairman Reed Hundt and Karen Brinkmann on behalf of the National Cellular Resellers Association.

Sincerely

William B. Wilhelm, Jr.

Enclosures

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NATIONAL CELLULAR RESELLERS ASSOCIATION

May 6, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Dear Mr. Chairman:

Thank you very much for taking time from your busy schedule to meet with representatives of the National Cellular Resellers Association on Wednesday, May 4. We enjoyed meeting you and Karen Brinkmann and welcomed the opportunity to discuss our concerns about the state of competition in the cellular marketplace and how interconnection for non-facilities based cellular service providers would enhance competition and benefit consumers.

Coincidentally, an article in the following day's Wall Street Journal punctuated NCRA's views on the problems consumers are experiencing at the hands of the cellular duopoly. Titled, "Cellular-Phone Rates Spark Static From Users," the article chronicles the stubbornly high rates cellular carriers charge for service, how lack of competition contibutes to high rates, and how excessive rates restrict cellular phone usage or takes the technology out of reach of many consumers.

The article (which is enclosed) also discusses the Commission's efforts to enchance wireless competition but notes that additional competition is at least two years away. NCRA wishes to reiterate that consumers need not wait two years--or longer--for cellular rate relief. It could come much sooner if the Commission, as NCRA believes the law requires, acts expeditiously to recognize the right of non-facilities based service providers to interconnect on an unbundled basis to cellular networks. On this point, NCRA plans to file a Petition for Reconsideration in response to the Commission's Second Report and Order in Docket No. 93-252. We hope the Commission views the Petition as an appropriate vehicle to promptly resolve all cellular interconnection issues.

Once again, thank you for your valuable time. We wish you every success.

Sincerely,

David Gusky
Executive Director

Enclosure
cc: Karen Brinkmann

William F. Caton

1825 Eye Street, N.W. • Suite 400 • Washington, D.C. 20006 • (202) 429-2014 • FAX (202) 857-0897

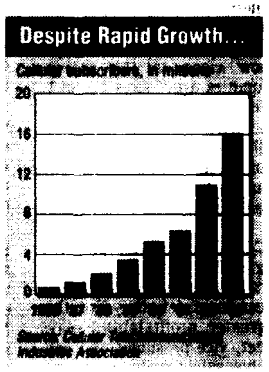
WALL STREET JOURNAL, Thursday, May 5, 1994, Page B1

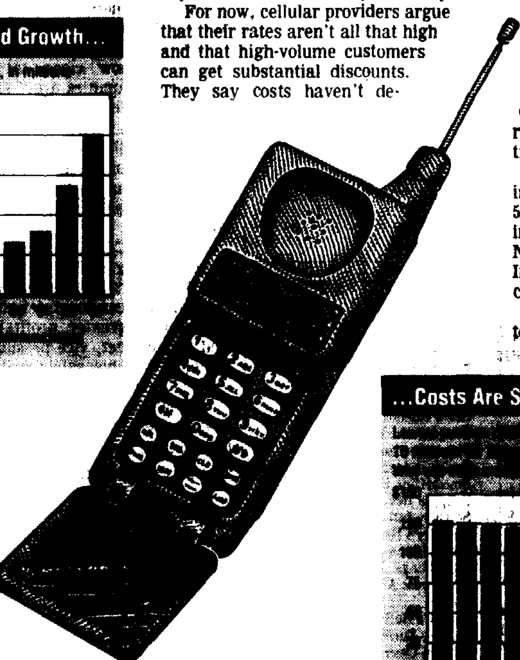
Cellular-Phone Rates Spark Static From Users

By Gautam Naik
Staff Reporter of The Wall Street Journal

Virgil Cobb was smitten by the idea of being a walking, talking, reach-me-anywhere executive. Like millions of others, he just loved his cellular phone.

"It was like a drug," says Mr. Cobb, the owner of a small building-materials firm in Detroit. But after paying bills of $400 a month for three years, Mr. Cobb canceled his phone service and now resorts to a pager and pay phones. His monthly beeper bill: $12. As for cellular service, he says, "It'll have to be pretty darn cheap before I use it again."





Unhappy cellular-phone owners are a growing breed. Lured by the tantalizing claims of the wireless revolution, they rushed out and bought nifty pocket phones, believing that instant access would be worth the price. Now many users are questioning whether charges of 60 cents a minute for local calls are ever worth it.

Some customers have sharply cut back on phone use. Others, like Mr. Cobb, have abandoned their cellular phones altogether. One recent survey shows about 60% of companies using cellular service say high rates are a big source of discontent. Even as the cellular business continues to post soaring growth, about 30% of customers in some markets cancel their service every year or switch to another carrier.

"We've reached a saturation point for those who are willing to pay high dollars for cellular service," says Kevin Allodi, a vice president at Computer Sciences Corp., which provides billing and other services to telecommunications firms. "Now cellular operators are bumping up against those consumers who want to see prices lowered."

The cellular industry has grown at explosive rates since its launch a decade ago. In 1993 alone, the number of customers surged 45% to 16 million, while revenue zoomed 40% to $10.9 billion. Despite this growth, it isn't a whole lot cheaper to make a cellular call today than it was 10 years ago. While long-distance charges have fallen roughly 40% in the past decade, by one measure even the *lowest* average cellular rates around the country have come down only 9% in eight years.

One major reason is a lack of competition. The Federal Communications Commission in 1981 decreed that each cellular market should be restricted to just two cellular carriers, and typically the entrenched local phone company is one of them. And unlike regular phone service, cellular doesn't have to answer to regulators.

The FCC holds out the hope of more competition. It has set plans to auction licenses for "personal communications services," which would introduce up to seven new rivals in each market. But the auctions aren't until the fall, and any new services are two years away.

For now, cellular providers argue that their rates aren't all that high and that high-volume customers can get substantial discounts. They say costs haven't declined more because of the industry's huge outlays to build transmission towers, develop new digital technology and administer expanding operations.

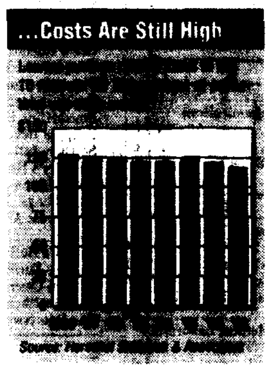
"You'll see prices come down as you see economies of scale," says Ray Dolan, vice president of marketing at Nynex Mobile Communications, a unit of Nynex Corp. "Now, no matter how fast we throw resources at it, we can't keep up" with the infrastructure required to meet growing demand.

The numbers tell a different story. In the past decade, some $13.9 billion has been spent building the system, while $36.9 billion in revenue has been taken in. Last year five million new subscribers signed on, and building new "cell sites" to serve them ought to have cost $4.5 billion, based on industry data showing the average cost of a cell site. But the industry actually spent only $2.6 billion because so much infrastructure is already installed: Cellular is now available in more than 90% of the U.S.

Even carriers admit they will be forced to lower per-minute rates when competitors arrive. Some users ask: If they can lower prices then, why not now? Barry Goodstadt of Electronic Data Systems Corp. offers one answer: "Cellular firms clearly have room to lower prices. But they know they have competition coming. So you get your margins while you can."

Per-minute costs hardly vary among the two carriers in many major cities. In New York, Nynex charges up to 59 cents per minute during peak hours whether the call is incoming or outgoing; rival Cellular One of Paramus, N.J., controlled by McCaw Cellular Communications Inc., charges 65 cents. In Los Angeles, the two cellular carriers charge 45 cents and 41 cents a minute.

The lack of real competition has given cellular operators the freedom to impose stringent contract conditions including high "activation" fees just to get service started. Cellular One of Paramus typically charges $55 unless it uses a special promotion and waives that fee, and the user is obliged to stick with it for at least one year. Leave early, and you pay a $200 penalty. And the cost of cellular equipment is extra.



But customers are rankled most of all by "roaming" charges, the stiff fees users must pay to make calls from outside their home regions. During a recent call to New York from California, Jeffrey Hines, an analyst at PaineWebber Inc. wound up paying $21.89 for a 22-minute cellular call—in addition to his basic monthly charge of $40, which includes the first 30 minutes of local calls. Another irritant is the charge for incoming calls (a practice not followed by cellular companies in Europe). "It's a double whammy," Mr. Hines complains.

Such consumer dissatisfaction adds up. Consumers "fall in love with the phone, but they don't really under-

Please Turn to Page B8, Column 5

Cellular-Phone Users Give a Lot of Static To Cellular Carriers

Continued From Page B1

stand how the service works," says Tom Kelly, a vice president at Cellular One of Paramus. High customer turnover is due in part to the "additional charges, the unpredictability of roaming and billing problems," he says.

Critics of the carriers say current subscribers shouldn't have to fund the industry's high-tech fancies and future growth. In Michigan, state Sen. Don Koivisto is pressing to regulate per-minute rates and scrutinize billing practices. "Anyone using these phones realizes how convenient they are," he says. "The problem occurs when consumers open their bills."

Such a problem happened at Allied Equipment Corp., which makes materials-handling gear in Hayward, Calif., after the company decided to equip its 12-person sales force with cellular phones and pay half the charges. Over two years, the company rang up an astonishing $250,000 in cellular phone bills—more than $10,000 a year per person. Allied pulled the plug last year. Its two-year cost is down to $55,000 for all local, long-distance and pager service.

"We got to a point where we couldn't slow down on the cellular phones," recalls Eric Landtom, one of the salesmen. "I was definitely a more productive salesman. But the cost couldn't justify the means."